

Questions and Answers from Mississippi Valley Conference Finance Best Practices Session

QUESTION: I've heard some really interesting things on what the three DOT's have done to manage their money better. I'm interested in knowing what you have done to reduce operating costs and improve efficiency in each state? What are the prospects of additional state funding?

KENTUCKY: As far as what we are doing to increase efficiency and lower operating costs, we can sit here and we can talk for a few minutes, but basically it's the same thing I'm sure every state is doing. We look at all the programs that we're responsible for, we're looking to make sure the cost is effective and we are properly accountable. It's hard, but I will say that we are absolutely concerned about the efficiency of our many programs. The public demands that they get the full bang for the buck from us, and as my former Secretary sitting over there can attest, the press in Kentucky makes sure we stay on our toes. The other thing I would say, looking ahead, is that I think the revenue picture is reasonably optimistic. In Kentucky we just never know quite what's going to happen, whether we will see a revenue base of a significant size. But one thing we are sure of is as long as we manage the available cash to best of our ability, whatever program we generate will be the best we can do with what we have.

MICHIGAN: On the first part, about what we're doing to increase efficiency: when the current administration came into office about two and a half years ago, one of the first things they did was propose about a 15 percent operating budget reduction for the department. It was implemented, and it was reduced to a little over \$36 million in our operating budget, so we had no choice but to react to that. Most of the budget reductions fell upon support areas like IT, Human Resources, Finance, Communications and those types of things. We've been operating with reduced budgets in those areas. We also, in the finance area, developed a kind of accounting system, if you will, that assigns costs to our activities so we can understand better exactly what it costs us to deliver our services. Although it's fairly new – we've only really captured two years actual financial information in that system – we hope to be able to use that to do a better job objectively analyzing what it costs us to deliver and make process changes and system changes and become more efficient.

MINNESOTA: In the program delivery area we are using some innovative contracting techniques. In fact, we have another person from the Minnesota DOT making a presentation at another session like this one on that very topic. More design-build – we're not sure it costs us less, but it certainly accelerates the project completion over our more conventional process. We're also having local governments take the lead in developing projects and managing projects and trying to develop more partnerships that help us reduce our overall costs. In maintenance and operations we've had a very creative set of individuals in our operating area who every year come up with innovations that I think help us reduce the cost of snow plowing and snow removal, primarily. And then we're getting more and more into preventative maintenance in our structures and our pavements. I think in the long run that will certainly make us more efficient. On the funding front, this year for the first time since 1988 our Legislature actually passed a very significant revenue increase bill for transportation. Unfortunately the Governor vetoed it. And so that is now dead for this session. Right now I'm just hoping we get our base operating budget. I'll be happy with that.

QUESTION: I can see the [Master Agreements] Process reduced your operating costs and costs of managing the federal program. Did it reduce the number of staff necessary to handle that within the state?

MICHIGAN: The staff savings at the time this was done were estimated to be small. It freed up parts of about four positions. They estimated within MDOT it was about \$10,000 in time savings. So it did not lead to a direct staff reduction. However, in 2002, the time we implemented this, was also when we saw an early out and there were positions that did not have to be filled. So that was part of the efficiency overall and contributed to downsizing. We've also had some mandated downsizing by our Legislature within our program and having this in place is one of the things that allowed us to respond to both of those outside influences in terms of reductions.

QUESTION: Through your economic analysis [of preservation projects] have you worked with the insurance companies and estimated the economic impact on their programs?

MICHIGAN: I do not think we have, that's a very good question. I am not positive on that, but I don't think we have. Certainly there are some savings in that area. I think as we refine this model, that's another place we can go with this. Very good point, there are clearly savings in insurance policies in a society with better roads, that's a no-brainer to me. Lou, do you happen to know that, do you know anymore about that?

There's preliminary work being done, I think. Some of the counties in Michigan are looking at trying to identify a risk of condition of the road, safety issues and so on, of course I'm sure the lawyers go nuts over that too. Thank you, excellent question, thanks.

QUESTION: For Scott in Minnesota. Who is primarily responsible for taking a construction estimate for, say, a two or three year project and converting it into a planned expenditure incurred?

MINNESOTA: For a typical project, the system that we've developed would project a payout curve for a project based upon our historical experience with projects of that type. If it's a large project, say \$300 million or so or even \$250 million, in that range. We actually have the capability of going in and working with the project manager for that project and developing a specific payment curve for that individual project because of the size and perhaps the unique nature of it. For some design build projects, we've asked the contractor to provide us with a proposed payment curve when they bid the project. Then, on a recent design-build project that we just awarded a month ago, we actually specified a maximum payment curve for that project as far as the bid process so it would compensate the claim throughout the life of the project.